Committee on Water

NARUC Summer Policy Summit

Incentivizing Regional Water Utility Partnerships

July 17th, 2018
Emily Simonson, @EmilySimo

About the US Water Alliance

Educate

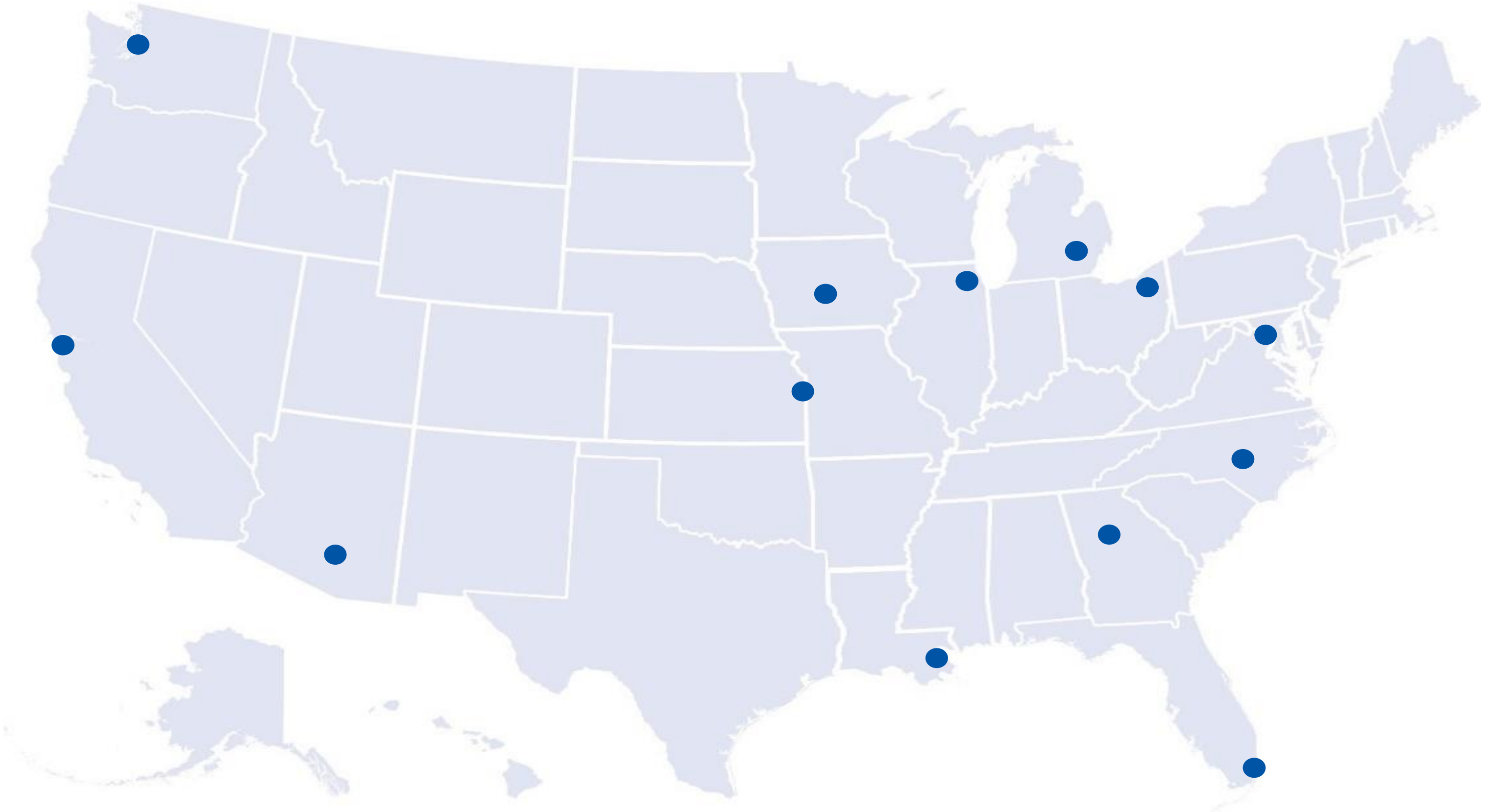
Accelerate

Celebrate

US Water Alliance

www.uswateralliance.org

One Water for America Listening Sessions

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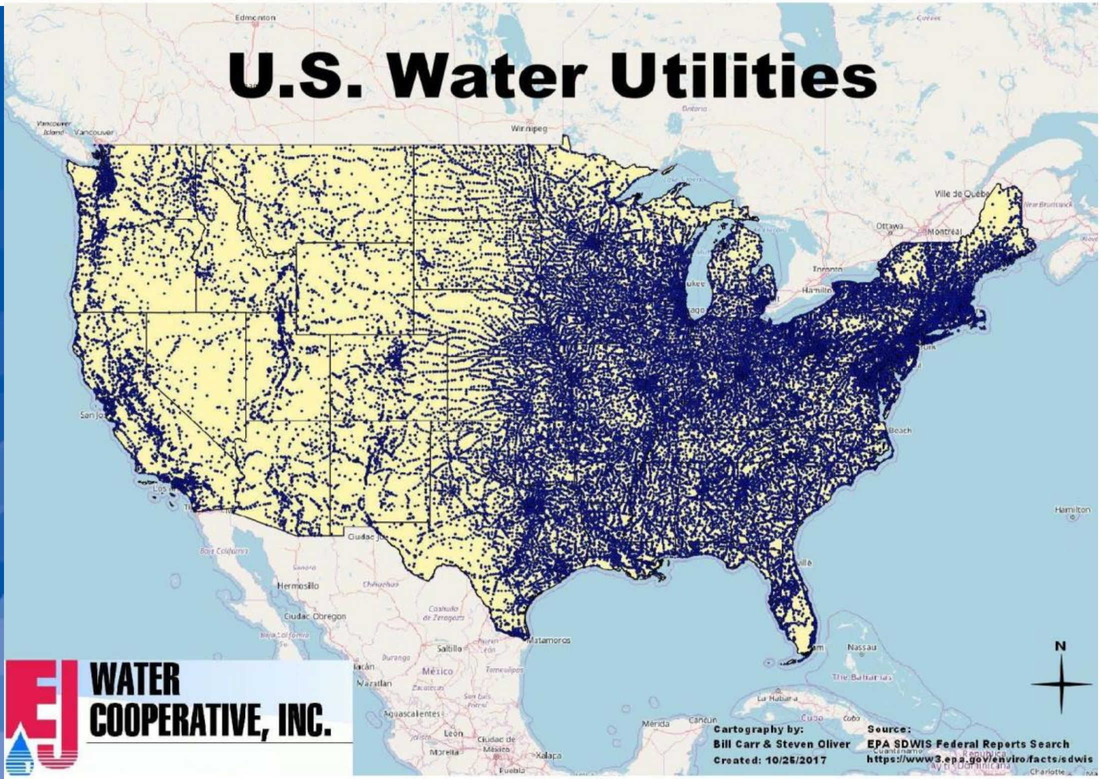
IDEA
1.
Advance regional collaboration on water management.


U.S. Water Utilities
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Cartography by:
Bill Carr & Steven Oliver
Created: 10/25/2017
Source:
EPA SDWIS Federal Reports Search
https://www3.epa.gov/enviro/facts/sdwis
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Vision for overcoming industry fragmentation

How do we get there?

5 Principles for overcoming industry fragmentation

Proactive & Locally Determined	Proactive, locally tailored, locally determined process and institutional arrangements.
Full Suite of Options	State regulatory agencies: full suite of intervention options to address conditions that put public health at risk.
Community Value	Community value proposition as driver: clearly and fully articulate potential costs and benefits of all options.
Governance Neutral Information	Provide balanced information on the full range of governance models that could be considered.
Comprehensive Authorizing Environment	Create a complete and cohesive authorizing environment: streamlined transactions, low up-front costs, range of governance options.

Proactive & Locally Determined

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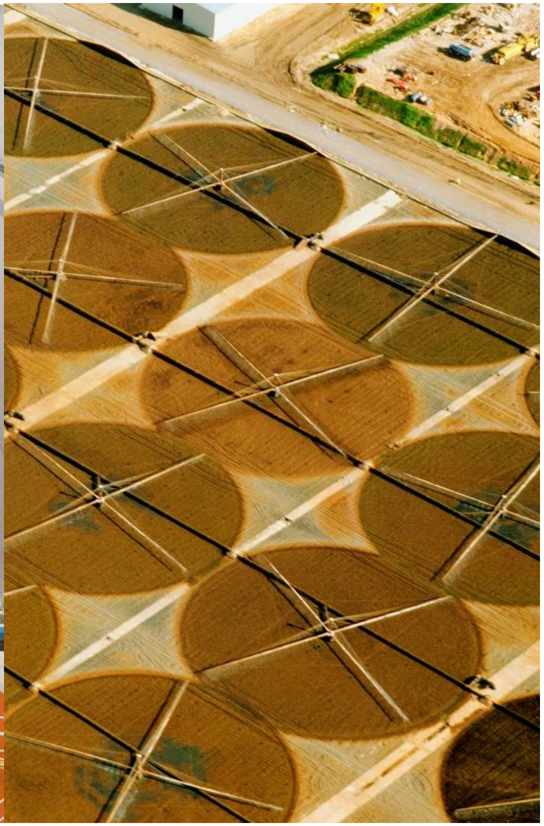
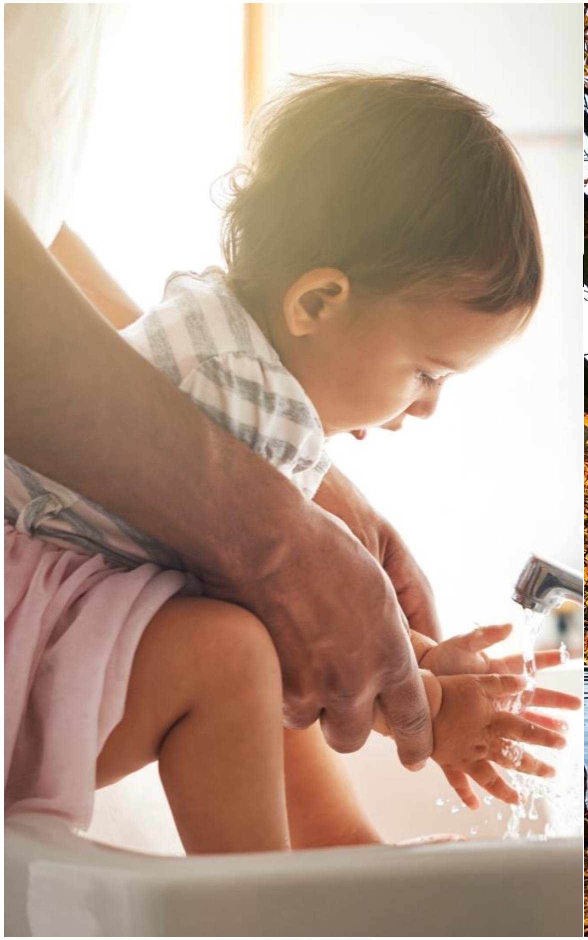
Full Suite of Options

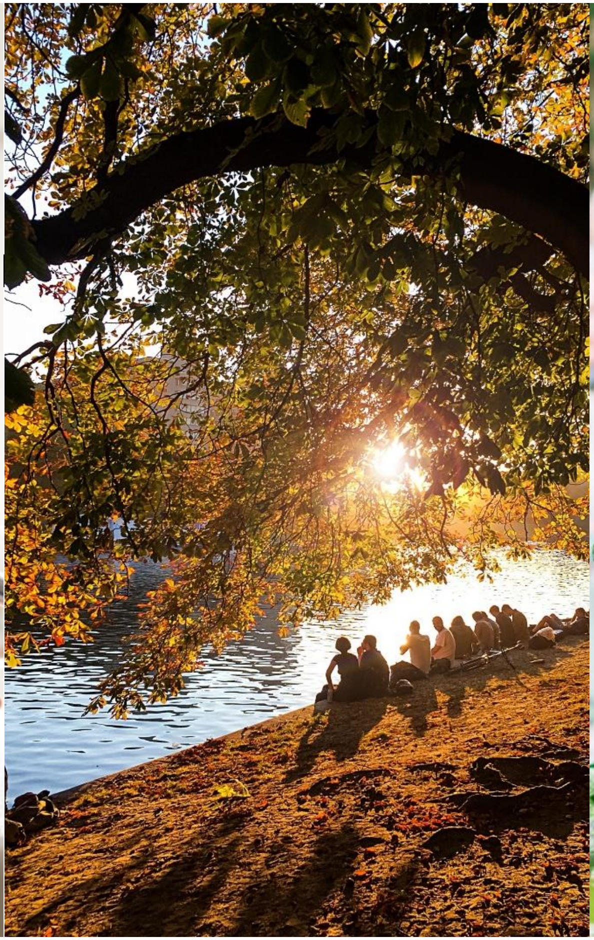
State regulatory agencies: full suite of intervention options to address conditions that put public health at risk.



Community Value

Community value proposition as driver: clearly and fully articulate potential costs and benefits of all options.





Governance Neutral Information

Provide balanced information on the full range of utility governance models that could be considered.

Comprehensive Authorizing Environment

Create a complete and cohesive authorizing environment: streamlined transactions, low up-front costs, range of governance options.

Summary

Coming soon from the US Water Alliance!

- **Principles:** Overcoming Water Industry Fragmentation
- **Benefits / Barriers Report:** "Strength in Numbers: Utility Strengthening through Consolidation"
- **Case Studies:** Finance and Water Utility Consolidation
- **Comparative Assessment:** Enabling State Policy Frameworks on Water Utility Consolidation

Thank you!

For more information:

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US Water Alliance

Committee on Water

NARUC Summer Policy Summit

PENNSYLVANIA AMERICAN WATER

NARUC Summer Policy Summit - 2018

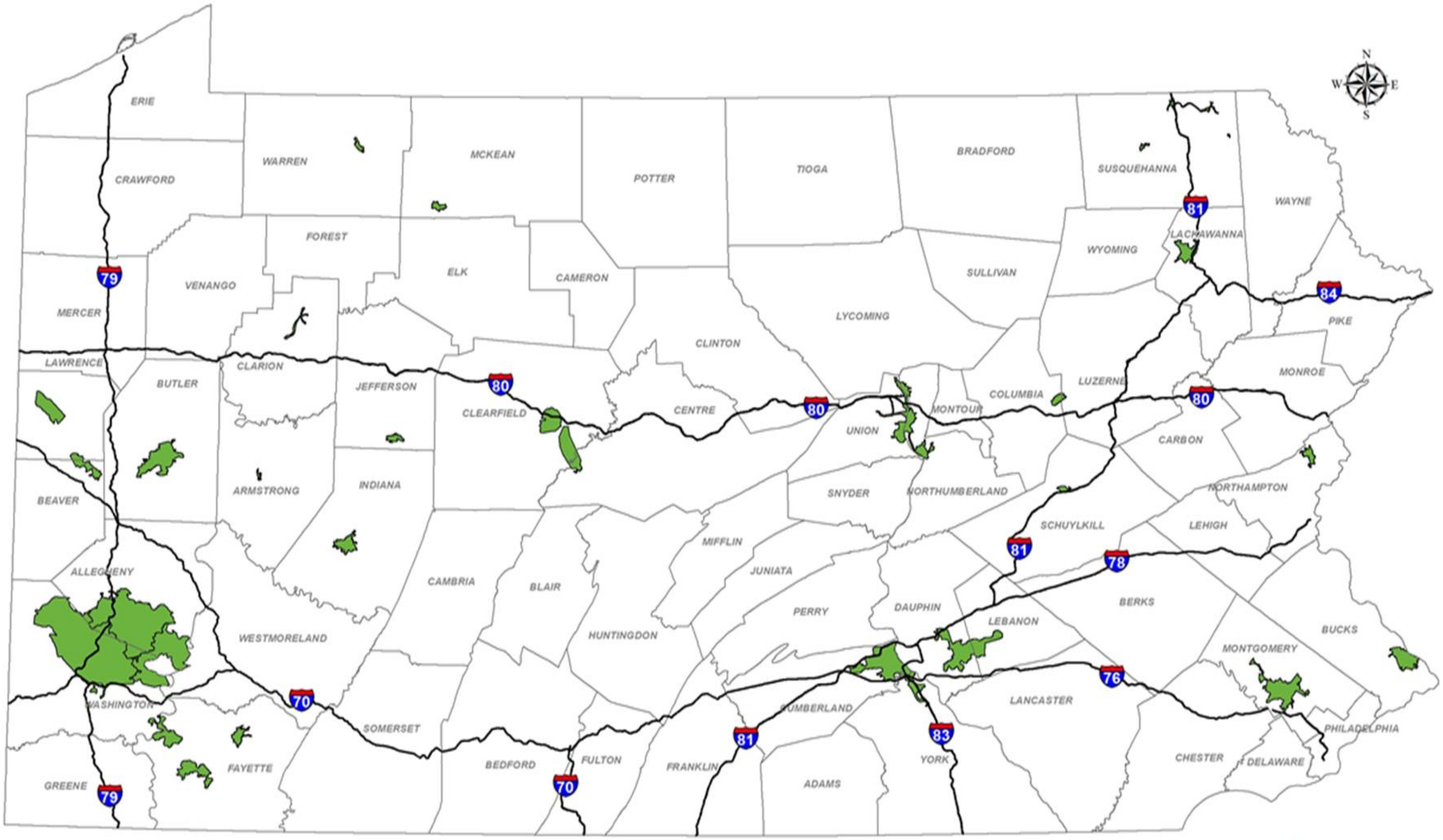
Incentivizing Partnerships

The Challenges




- Aging and Expired Infrastructure
- Emerging Contaminants
- Resiliency Concerns
- Sustainability
- Job Creation and Retiring Workforce
- Affordability

General	Customers Served	658,000 water; 65,000 wastewater
	Population Served	Approx. 2.4 million people
	Communities Served	400 municipalities in 36 counties
	Avg. Residential Monthly Bill (3,630 gallons)	Water: $60.85 Wastewater: $64.93
Source of Supply	Source of Supply	92% surface water, 7% groundwater; and 1% purchased
	Regulated Dams	56
	Active Groundwater Well Sources	103
Treatment	Surface Water Treatment Plants	36 (33 received Directors Awards)
	Wastewater Treatment Plants	18
Distribution/ Collection	Water Storage Facilities	256
	Pumping Stations	359 water and wastewater stations
	Water & Sewer Mains	11,054 miles
Capacity	Water Capacity	191 MGD (average daily delivery)
	Wastewater Capacity	52 MGD permitted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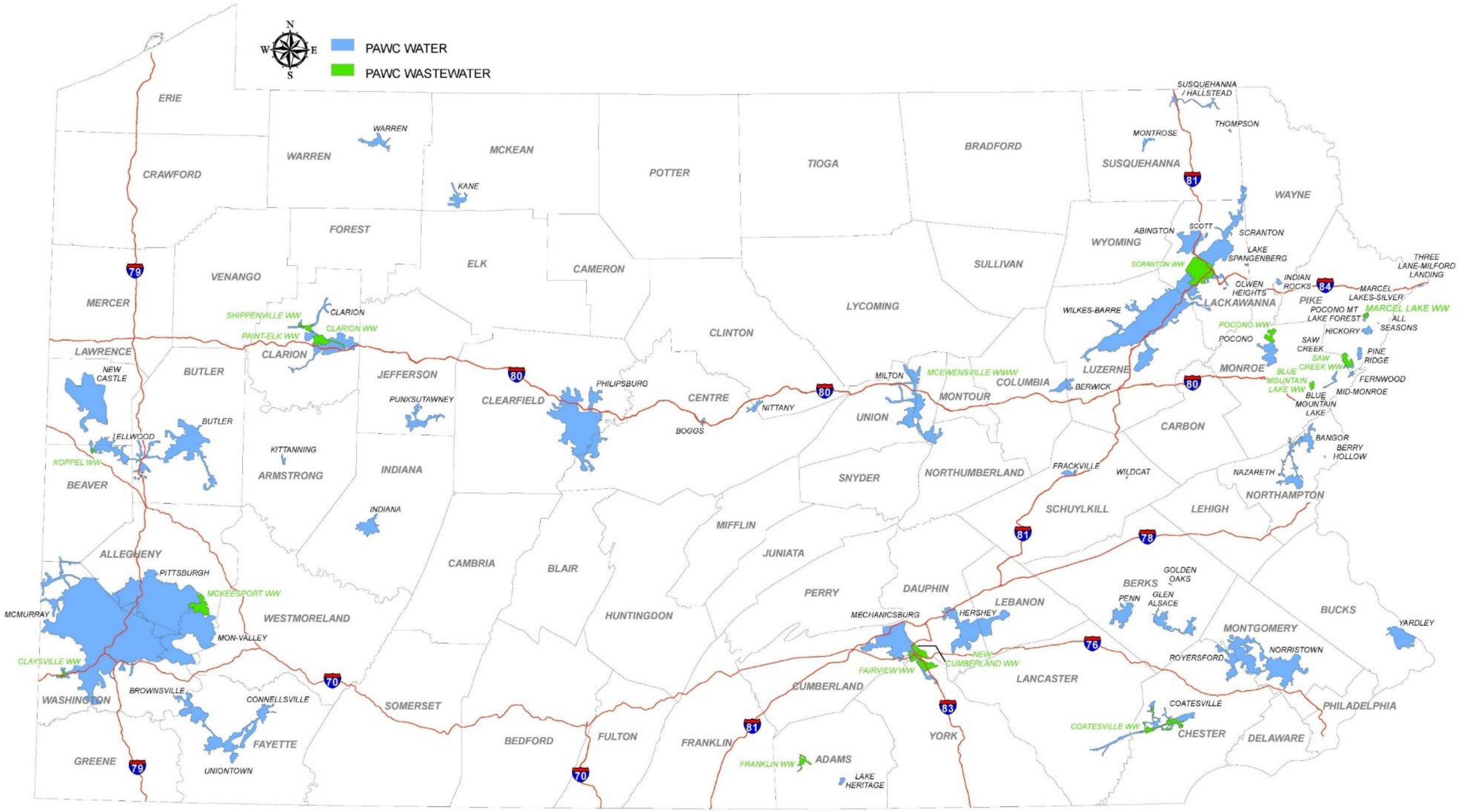
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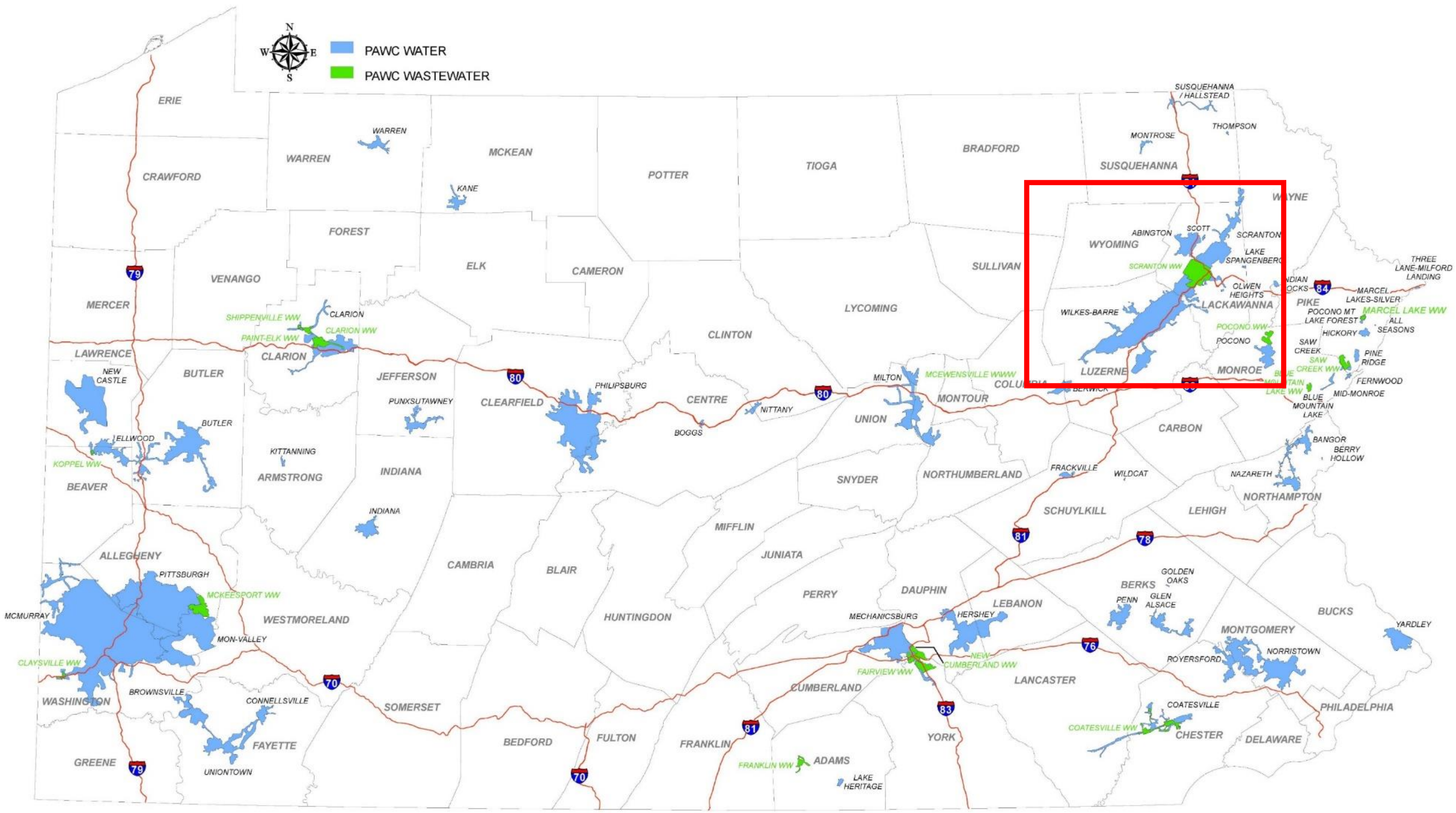

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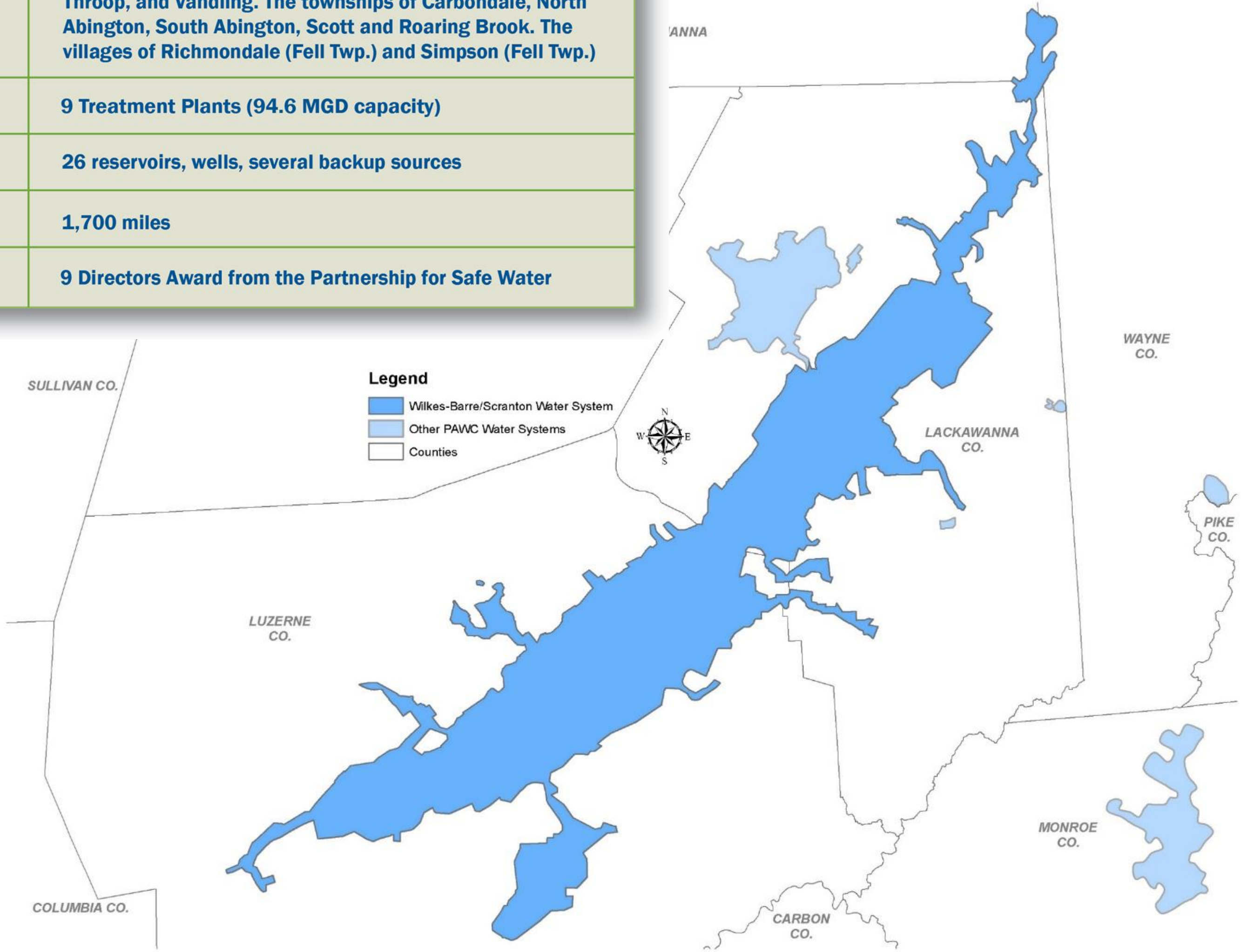
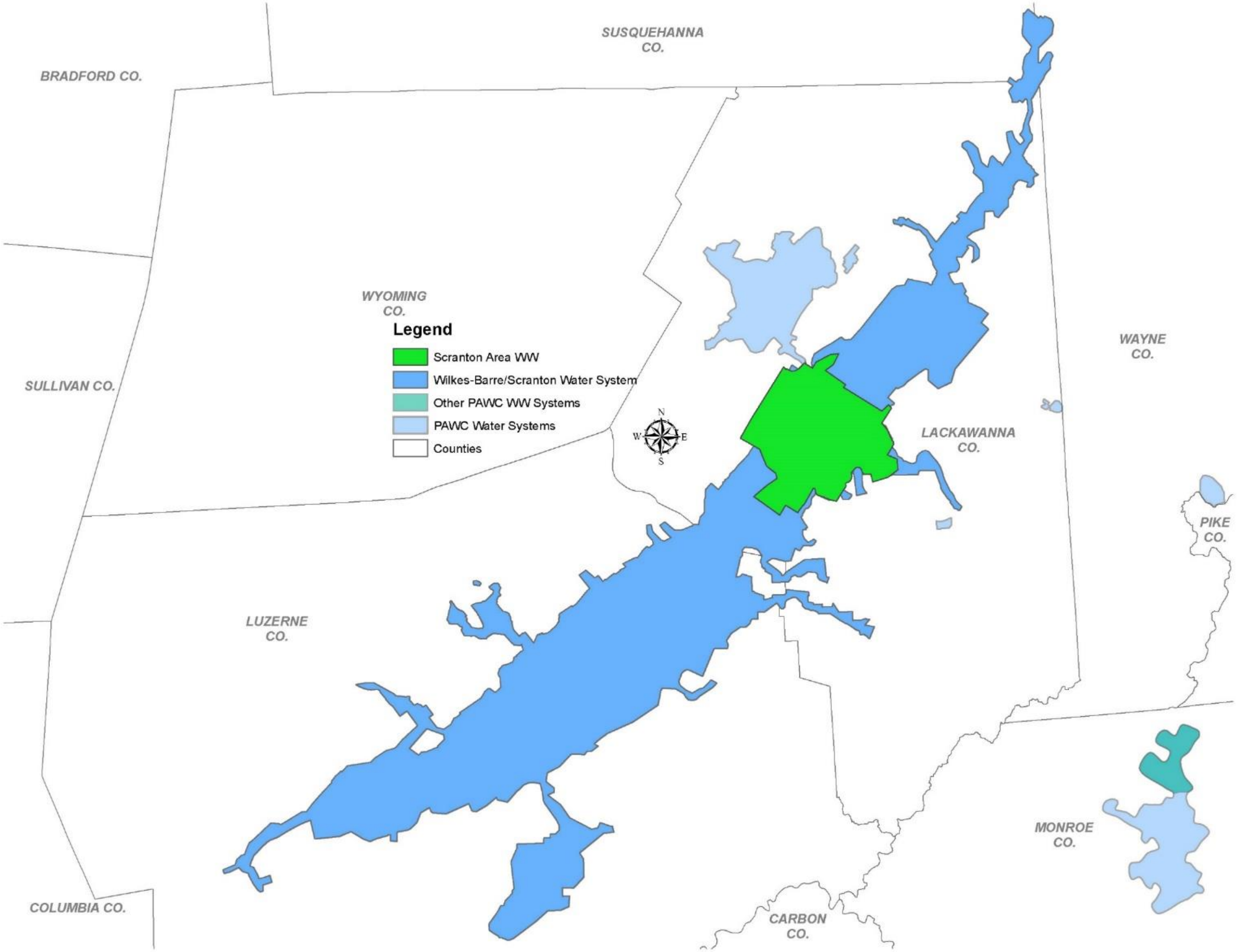
FAIRVIEW WW
NEW CUMBERLAND WW
FRANKLIN WW
COATESVILLE WW

Customers Served	**Approx. 135,000 water customers**
Communities Served (67)	**Lackawanna County: The cities of Carbondale and Scranton. The boroughs of Archbald, Blakely, Dickson City, Dunmore, Jermyn, Jessup, Mayfield, Moosic, Old Forge, Olyphant, Taylor, Throop, and Vandling. The townships of Carbondale, North Abington, South Abington, Scott and Roaring Brook. The villages of Richmondale (Fell Twp.) and Simpson (Fell Twp.)**
Treatment Plants	**9 Treatment Plants (94.6 MGD capacity)**
Source of Supply	**26 reservoirs, wells, several backup sources**
Water Main	**1,700 miles**
Directors Award	**9 Directors Award from the Partnership for Safe Water**

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BRADFORD CO.
WYOMING
CO.
Legend
Scranton Area WW
Wilkes-Barre/Scranton Water System
Other PAWC WW Systems
PAWC Water Systems
Counties
SULLIVAN CO.
WAYNE
CO.
LACKAWANNA
CO.
PIKE
CO.
LUZERNE
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MONROE
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COLUMBIA CO.
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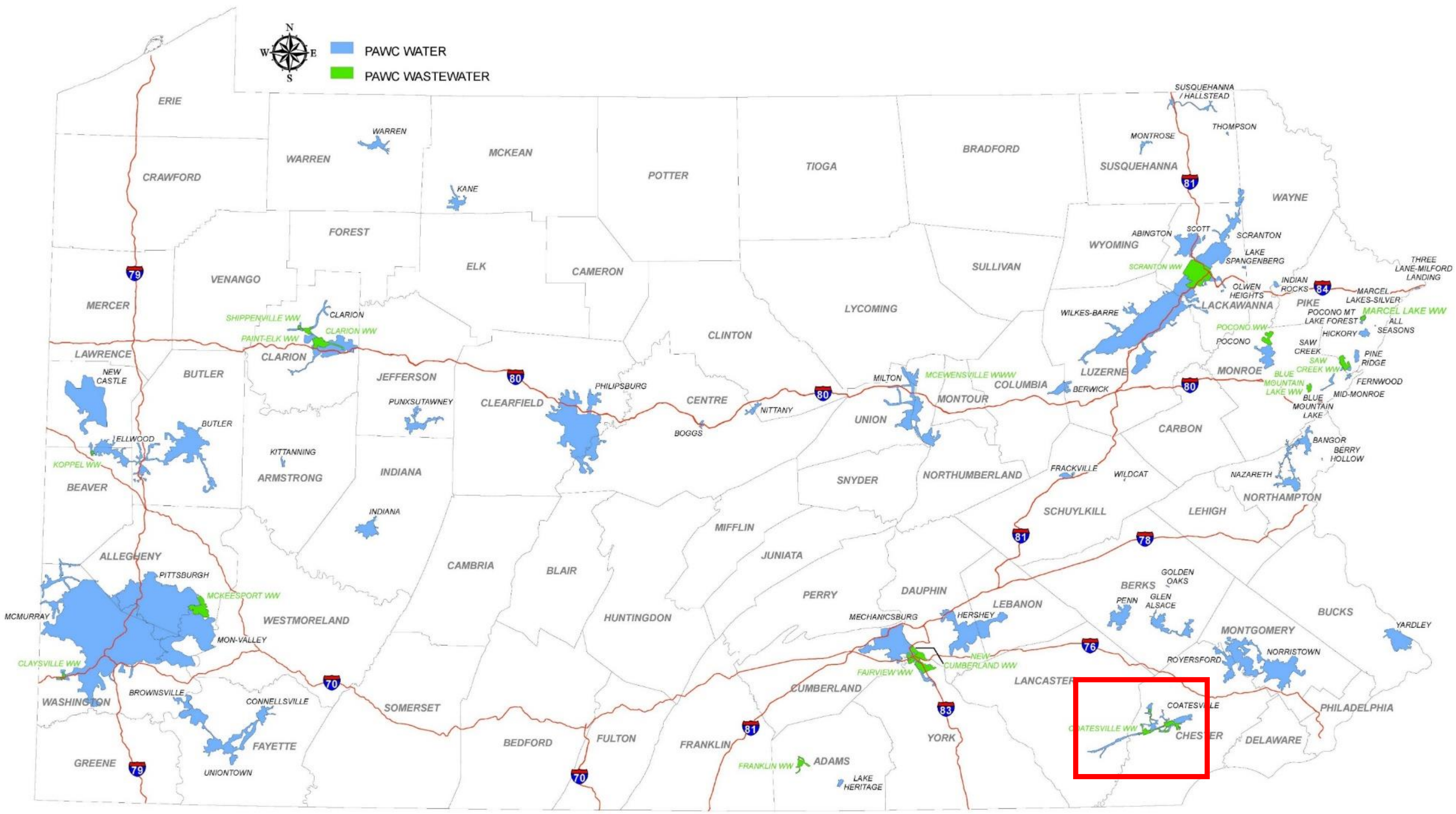
Scranton – SSA Procurement

- RFQ - O&M contract
  - 4 Qualified Companies
- RFP - O&M contract + lease or acquisition
  - 4 Qualified Bids
    - Suez & Veolia (Lease)
    - Aqua & PAWC (Purchase)
- BAFO - Acquisition Only
  - $195 MM purchase price
  - $70 MM debt
  - $140 MM consent decree effort
  - 80 employees
  - Est. $400k/year tax benefit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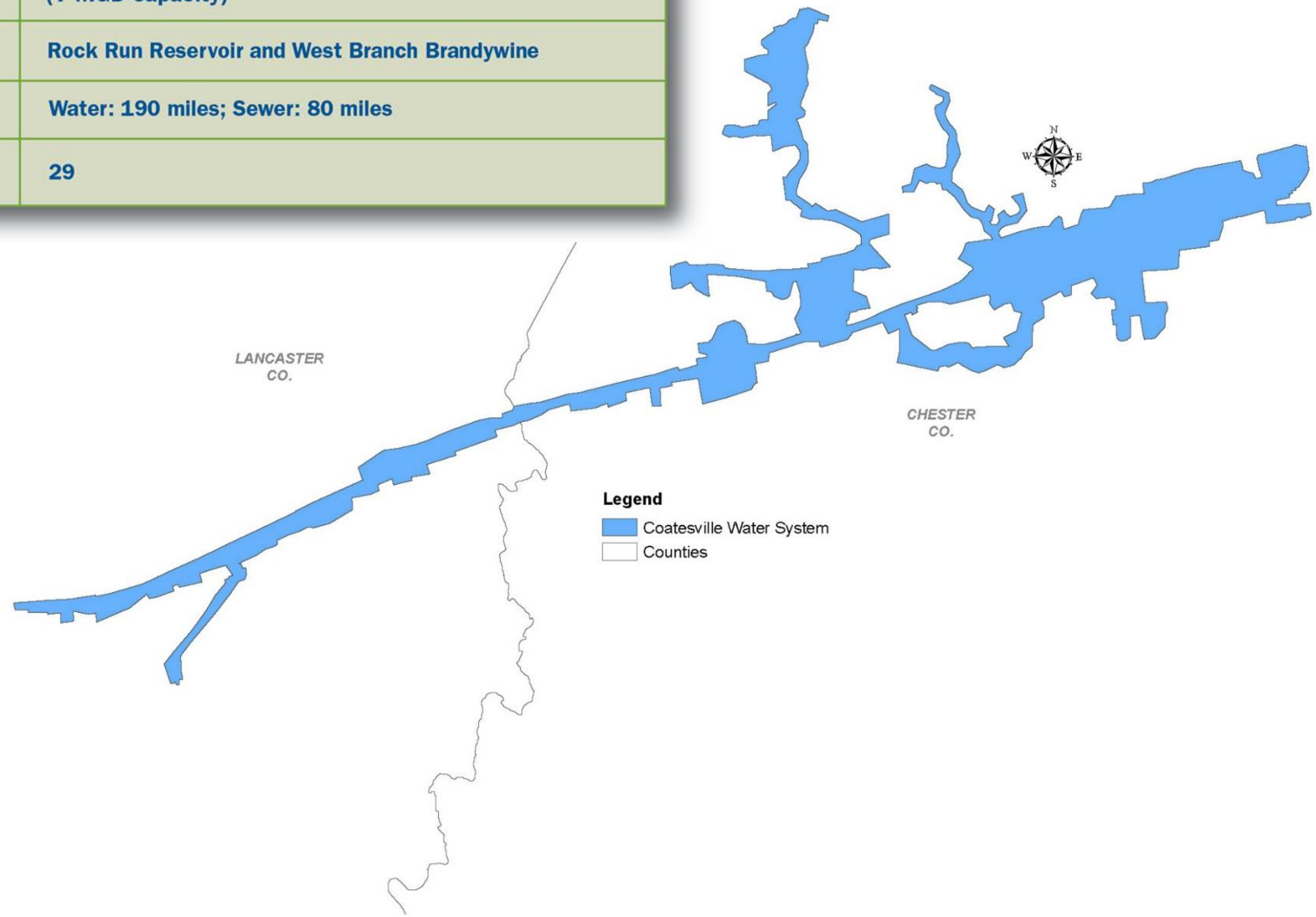
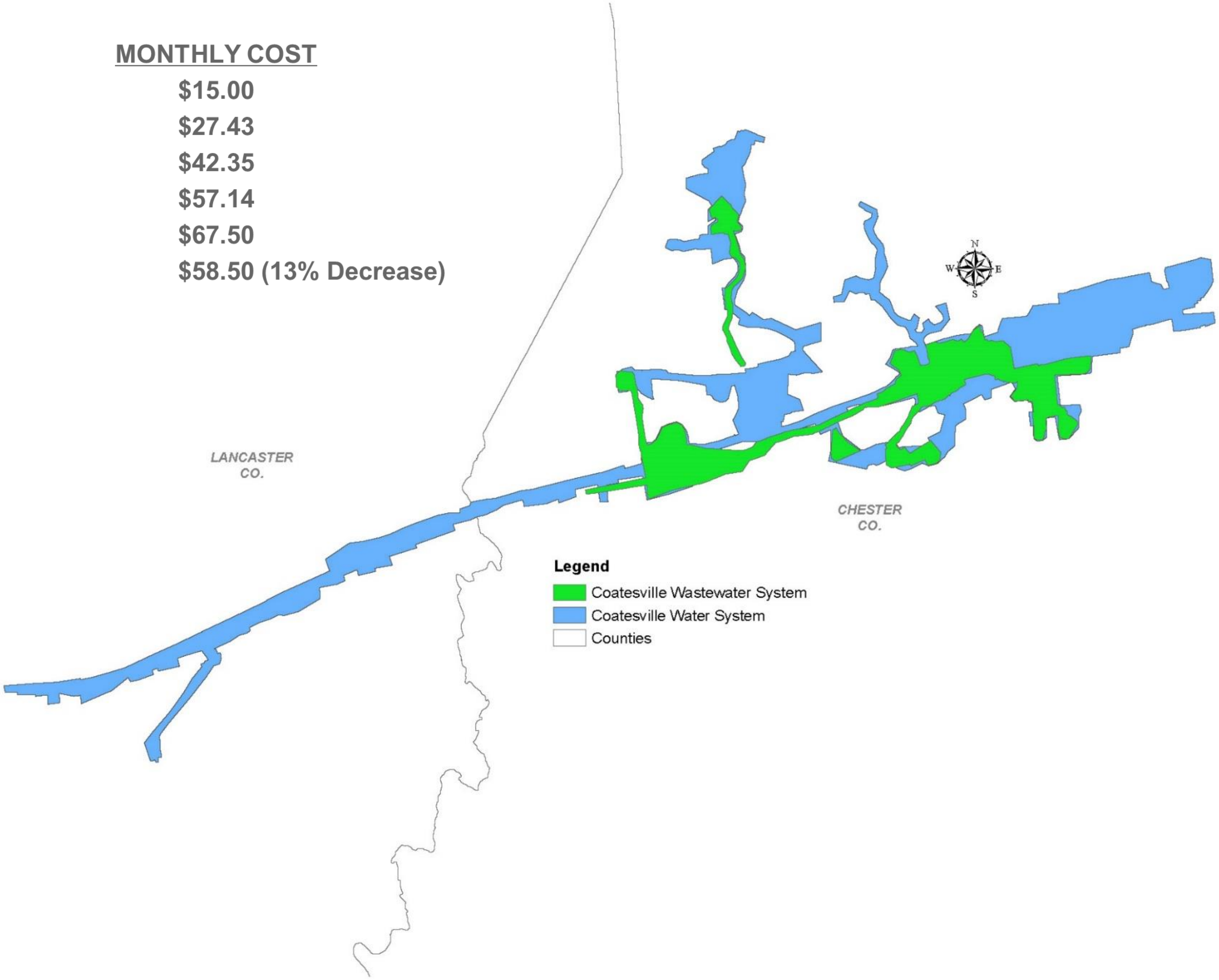
NEW CUMBERLAND WW
FRANKLIN WW
COATESVILLE WW
27

Customers Served	**12,100 water; 6,200 wastewater, plus bulk customers**
Communities Served (Water: 15; Wastewater 11)	**City of Coatesville; Boroughs of Atglen, Parkesburg, Quarryville, and South Coatesville, and the Townships of Bart, Caln, Colerain, East Fallowfield, Eden, Highland, Sadsbury, Valley, West Caln and West Sadsbury**
Treatment Plants	**Water: Rock Run Water Treatment Plant (5 MGD capacity) Wastewater: Coatesville Wastewater Treatment Plant (7 MGD capacity)**
Source of Supply	**Rock Run Reservoir and West Branch Brandywine**
Main	**Water: 190 miles; Sewer: 80 miles**
Employees	**29**



- **Wastewater rate history for average residential customer in Coatesville**

YEAR	MONTHLY COST
2001	$15.00
2008	$27.43
2011	$42.35
2012	$57.14
2013	$67.50
2014	$58.50 (13% Decrease)



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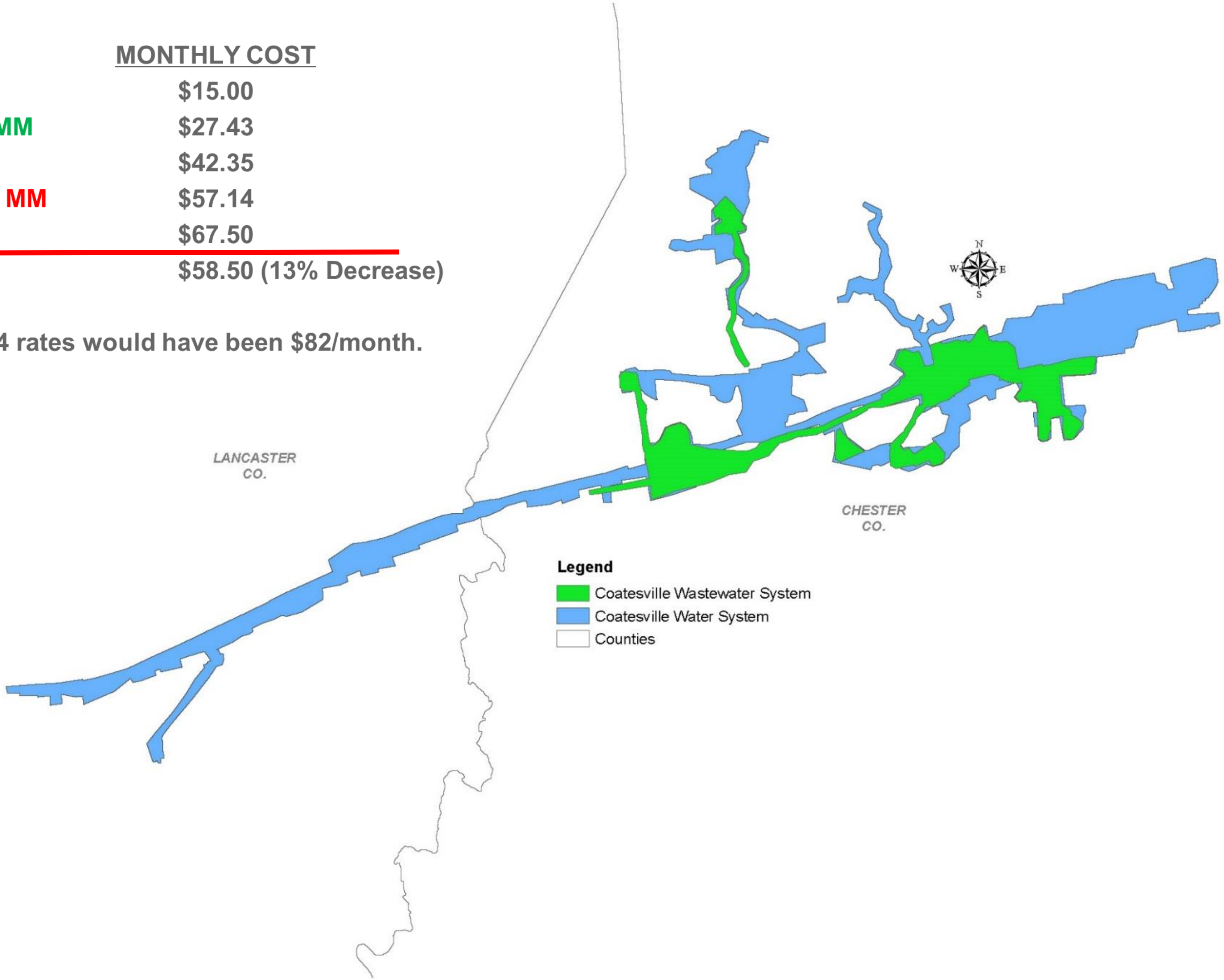
- Without Act 11, 2014 rates would have been $82/month.



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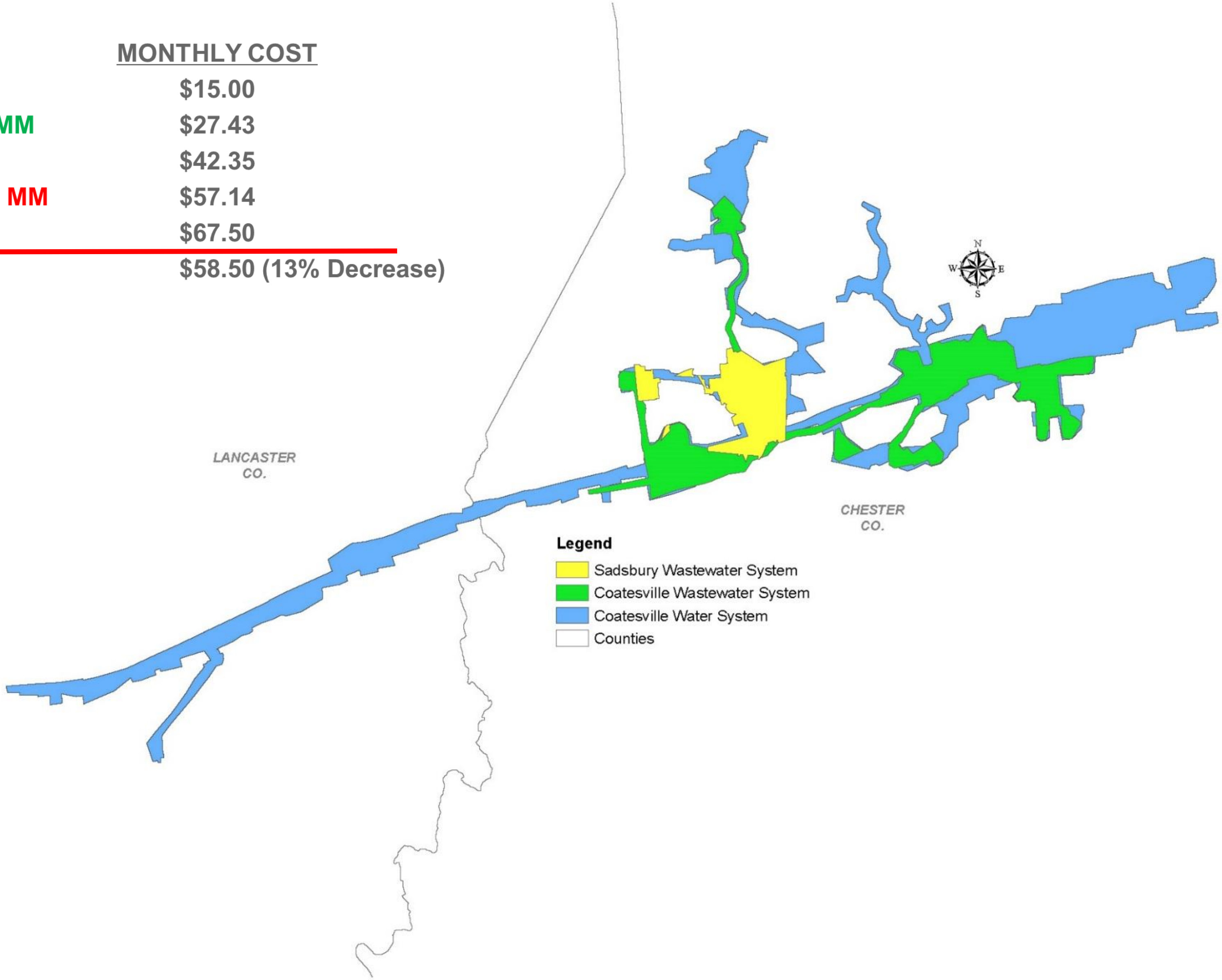


Act 12 – Fair Market Value Law

- Voluntary between qualified buyers and sellers
  - **Buyer** – regulated water or wastewater public utility
  - **Seller** - water or wastewater entity owned by a municipal corporation or authority
- Buyer and seller retain Utility Valuation Expert to prepare appraisals of seller’s tangible assets
- Fair market value is the average of the two appraisals
- Ratemaking rate base is the lesser of fair market value or purchase price
- Substantial activity in municipal market

Act 12 - PUC Filings To Date

PENNSYLVANIA AMERICAN WATER

New Garden

Aqua PA – ON APPEAL

Limerick

Aqua PA – SETTLEMENT APPROVED

McKeesport

PA American Water – CLOSED

East Bradford

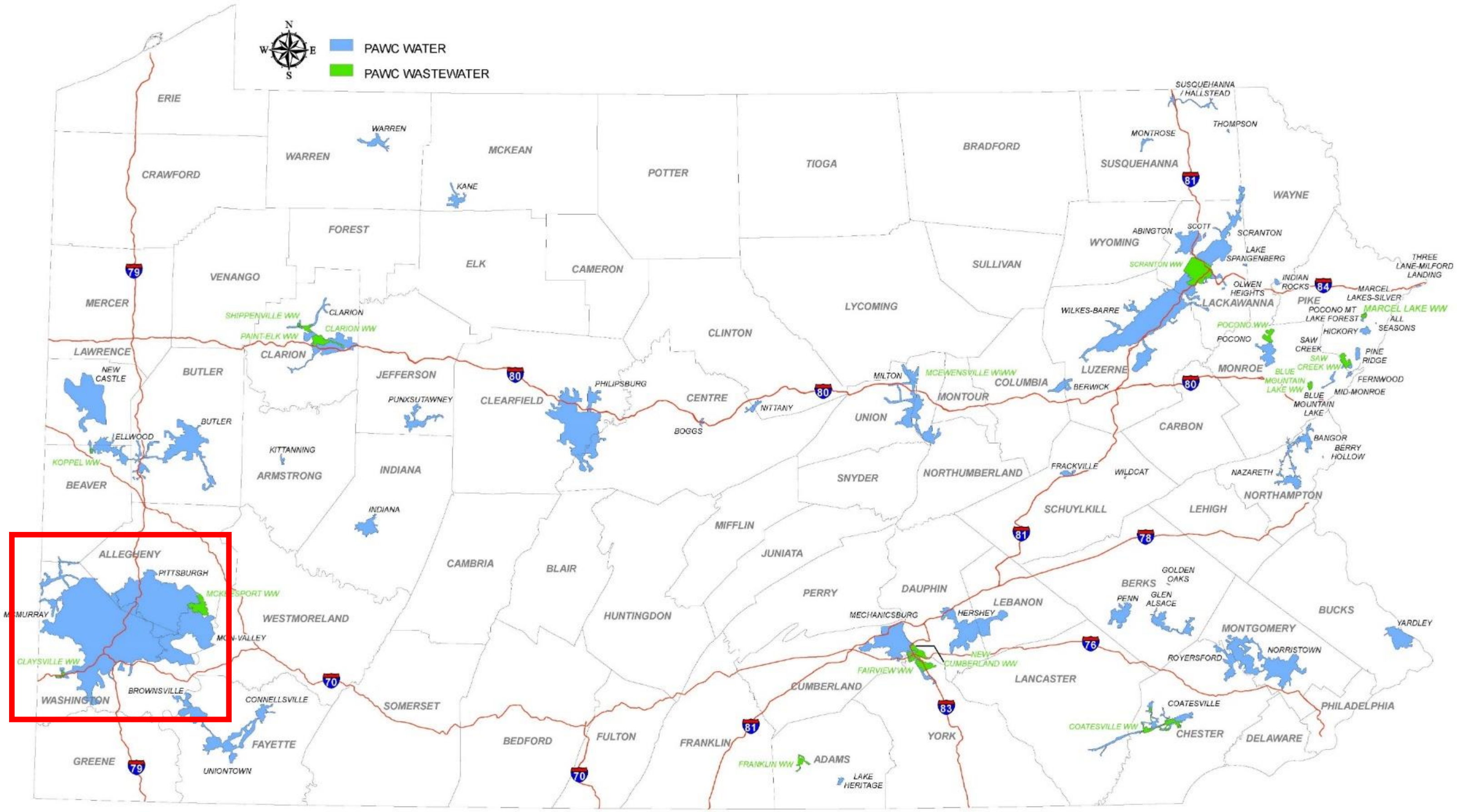
Aqua PA – APP. FILED

Sadsbury

PA American Water – APP. FILED

Exeter

PA American Water – APP. PENDING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FRANKLIN WW
LAKE HERITAGE
GOLDEN OAKS
PENN
GLEN ALSACE
ROYERSFORD
NORRISTOWN
YARDLEY
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OLWEN HEIGHTS
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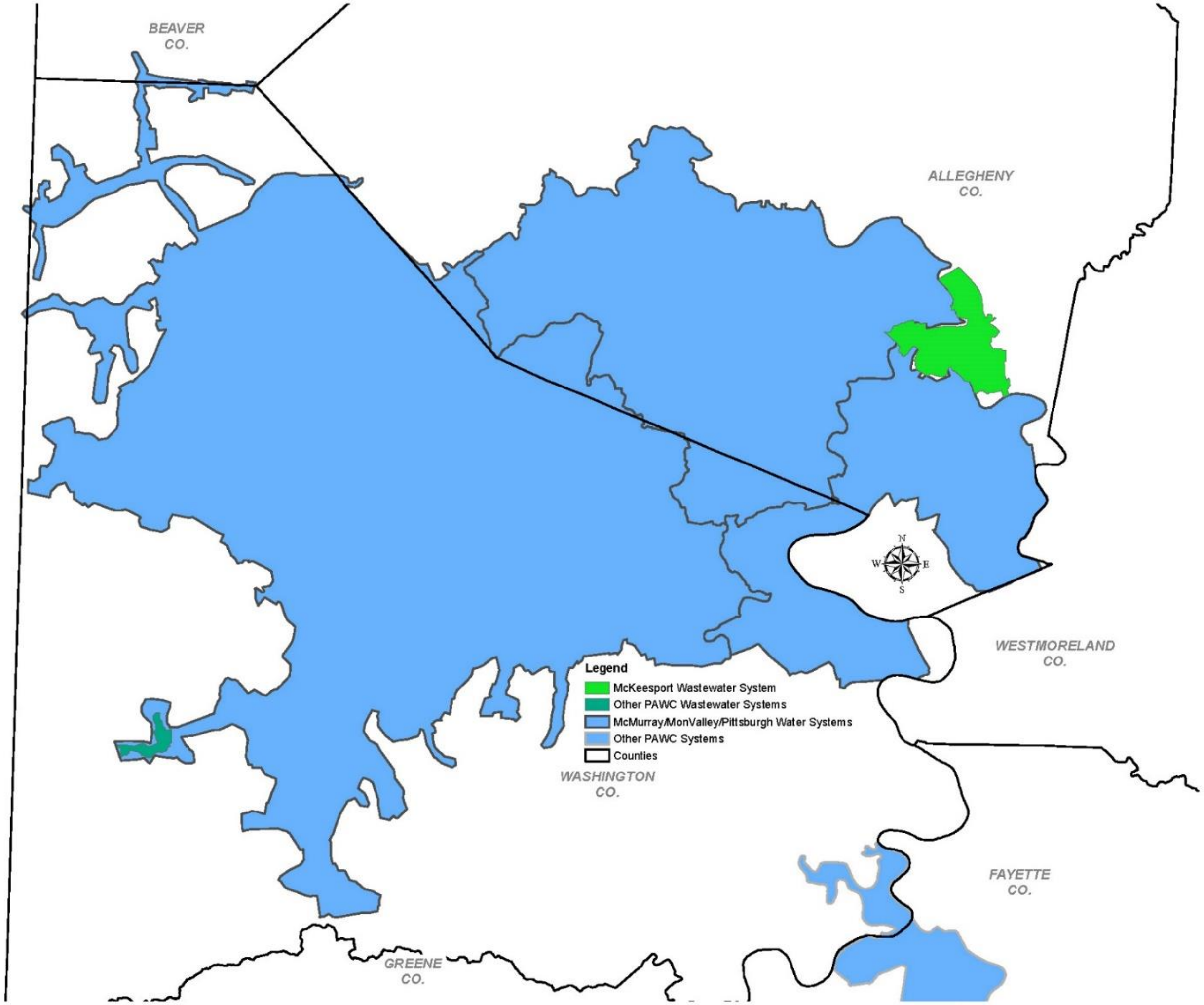
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McKeesport Wastewater System
Other PAWC Wastewater Systems
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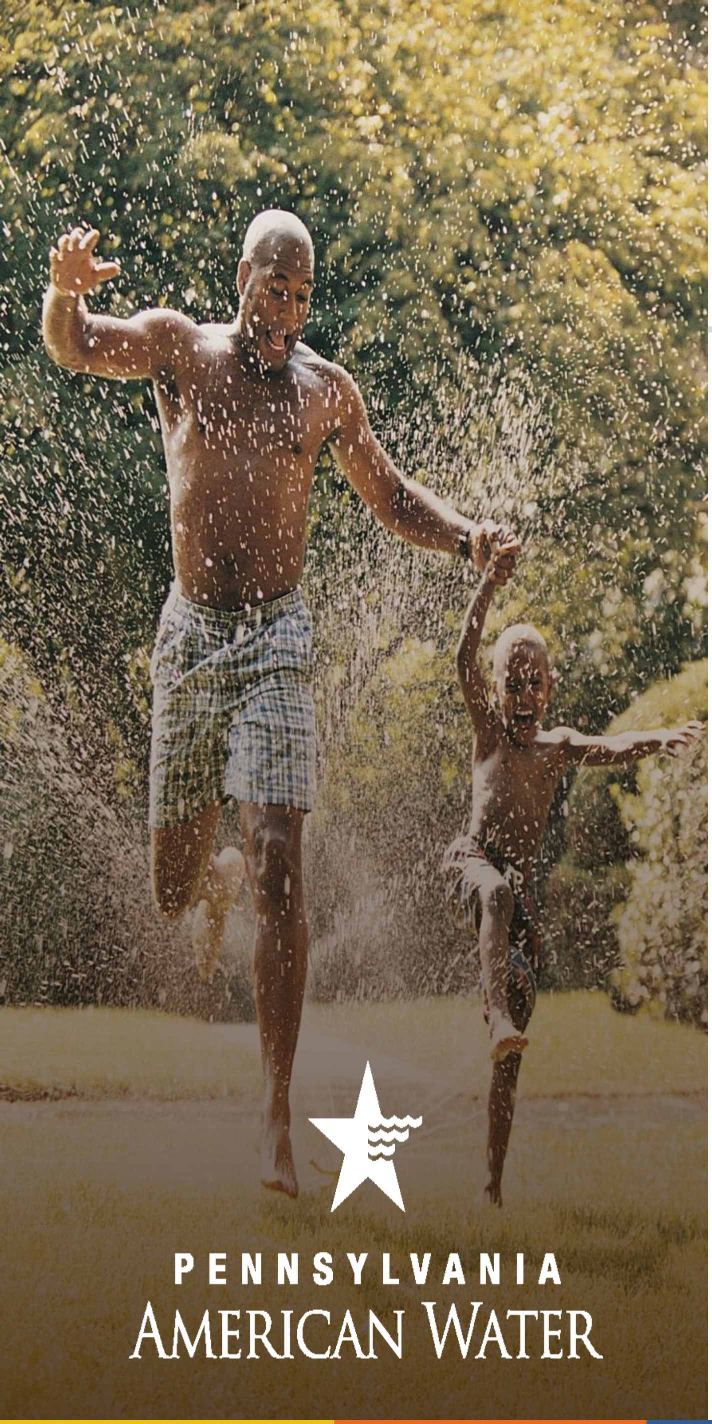


McKeesport - Search for a Solution

- Decided to lease the wastewater system in 2013
- Goals:
  - Avoid Act 47 and municipal bankruptcy
  - Maintain a high level of service
  - Keep wastewater rates affordable
- RFQ for possible lease - or sale - of the system issued in 2015
- Interested in working with a regional partner

McKeesport - Immediate Benefits

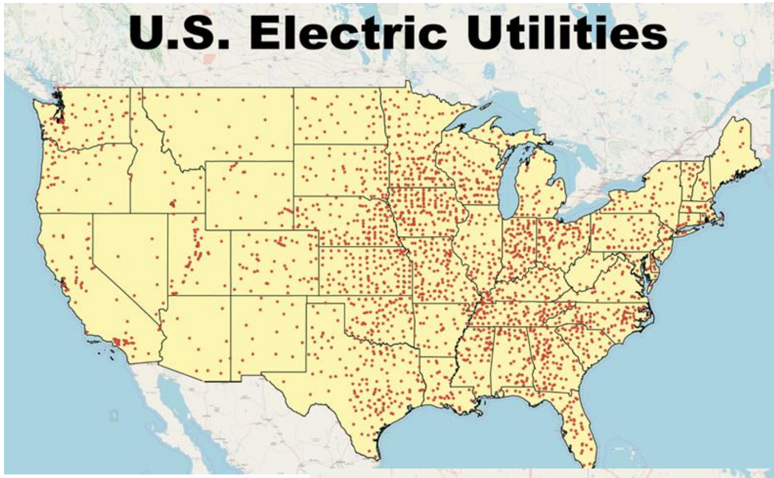
- $159 MM purchase price
- $40 MM net proceeds
- Avoided insolvency
- Proceeds used to positively impact community morale
- Launched "McKeesport Rising Project:"
  - Eliminate blight
  - Increase street paving
  - New paving equipment
  - Safe market based investments

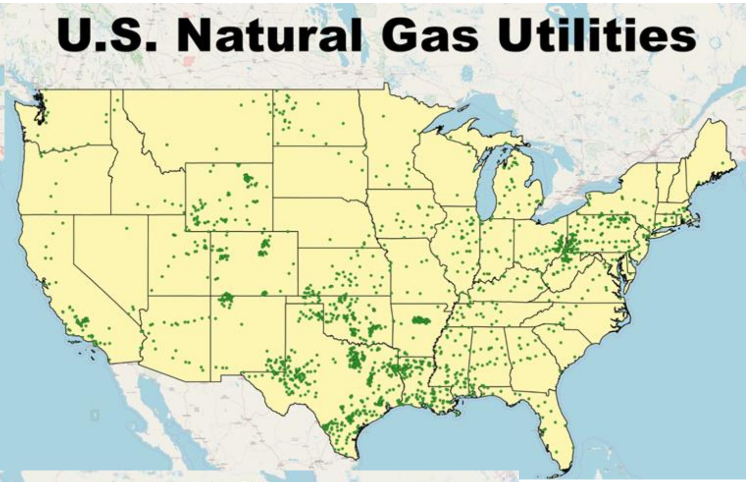
- Former MACM property assets now taxable
- Stabilized wastewater rates
- MACM employees offered employment
- Enhanced customer service

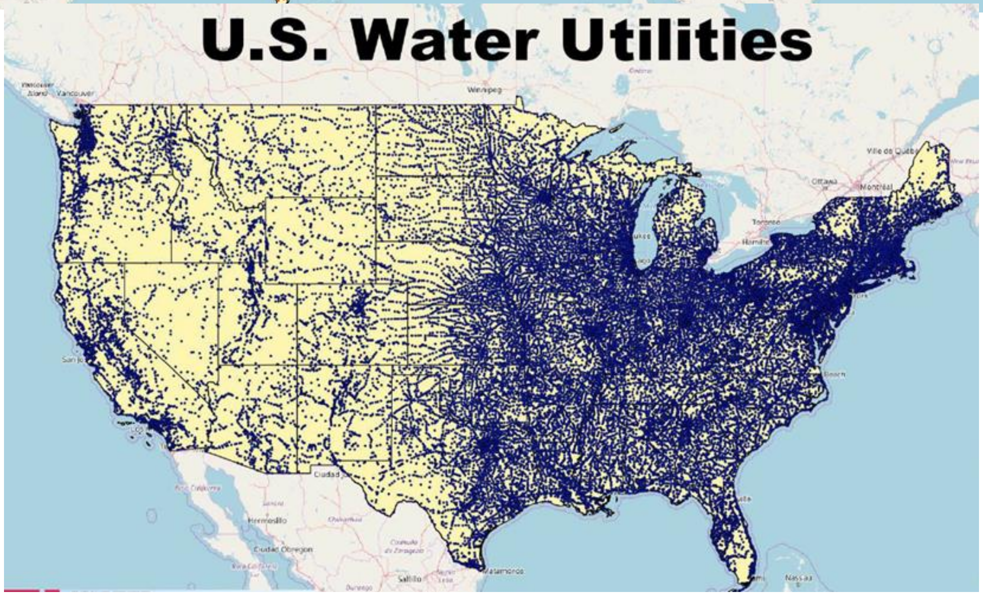
PENNSYLVANIA AMERICAN WATER

McKeesport Pennsylvania

Opportunities via Partnerships







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President, Pennsylvania-American Water

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Jeffrey.mcintyre@amwater.com

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AMERICAN WATER

Committee on Water

NARUC Summer Policy Summit

Incentivizing Partnerships in the Water Sector

Chris Shaffner

CoBANK

CoBank: a brief overview

- A broad-based cooperative financial services organization serving vital industries across rural America:
  - Agribusiness
  - Communications
  - Energy
  - Water
  - Community Facilities
- $130 billion in assets; 'AA-' rated by both S&P and Fitch
- Cooperatively owned by approximately 2,400 customers
- Headquartered outside Denver, CO; regional offices and banking centers throughout the country
- Approximately 1,100 employees nationwide
- Member of the Farm Credit System, a Government Sponsored Enterprise with $320 billion in assets

CoBank's Work in Water Sector

- Mission-driven
- Investor-Owned Utilities
- Rural Water Systems (not-for-profit, water districts, cooperatives, municipal bodies)
- 20,000 population limit
- Debt capital (up to 30 year terms)
- Partnership with federal agencies (USDA, EPA)
  - Construction financing
  - Loan guarantees
  - USDA refinancing
  - Pre-development lines of credit

Financing Challenges

- Financial recordkeeping
- Historical rate management
- Declining population
- Aging management team without succession plan
- Regulatory compliance violations
- Lack of capital plan and cash reserves
- Asset deterioration/neglect
- Systems unfamiliar with non-USDA financing

Other Challenges

- No consistent sustainability analysis model for systems
- No clear suite of options or successful models to consider
- Lack of incentives for all parties in consolidation effort
- Spirit of independence/ Local control
- No current position from USDA (incentives, etc.)
- Lack of accurate needs-based test for federal funding
- 50,000+ water systems
- 90%+ serving less than 10,000
- $1 trillion
- Historical funding sources
- Value of water

Opportunities

- ➢ Leadership from federal agencies
  - USDA program policy changes to incentivize partnerships
    - Needs-based allocation of grants and loans in water programs
    - Incentive-based rates for acquiring/lead system in a consolidation
    - Incentivize consolidation with other community facilities investments (for smaller system)
- ➢ Technology upgrades
  - Create remote partnership options while retaining control
  - Back-office technologies and consolidation
  - Skilled trades sharing
- ➢ Philanthropic role
  - First loss position/guarantees

Committee on Water

NARUC Summer Policy Summit